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Harvest Foods Ltd.

Food Industry Consultant

Market Opportunities for Saskatchewan Lamb

The Saskatchewan Lamb Industry Study

Phase 2

Development Strategy

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The Saskatchewan Lamb Industry Study

Phase 2

Development Strategy

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Executive Summary

This report provides an analysis of the strengths and weaknesses of the Saskatchhewan lamb industry. It further identifies market opportunities and threats so that the necessary information emerges to select an appropriate development strategy.

Four possible development strategies are reviewed. By matching industry strengths with market opportunities, Option 4 is selected as the most appropriate development strategy.

The recommended strategy advises the industry to strive to replace U.S. live lamb imports in Ontario and Alberta through adopting a more competitive position. This involves lowering the cost of production and assembly shifting to higher economies of scale through the use of irrigated and dryland community pasture projects.

The development strategy also recognizes the importance of farm-gate sales of lamb and recommends its development through promotional and marketing activities. This will involve a "Farm Fresh Lamb" marketing program and check-off targeted to expand farm-gate lamb sales at the registered farm and butcher shops. Farm-gate lamb sales, which now represent 40 per cent of provincial lamb consumption, should be pushed to 50 or 60 per cent.

Recommendations

Summary

1. A three pronged development strategy should be implemented through the SSWMC to:

   A. Increase Commercial Sector Competitiveness
   B. Increase Farm-Gate Sales
   C. Broaden Distribution Channels Servicing Out-of-Province Markets.

2. The commercial sector schould undergo a change to lower cost of production and assembly of lamb thereby increasing its competitive position with U.S. lamb imports into Ontario, Quebec and Alberta markets.

3. We endorse the ERDA Irrigated Pasture study and encourage the acceleration and expansion of this research.

4. The SSWMC and Saskatchewan Agriculture should regularly determine the cost of production for commercial sheep production. Such information should be used to design programs to increase industry efficiency and to measure the progress being made to lower the cost of sheep production and assembly.

5. Saskatchewan Agriculture should consider implementing a Sheep Developmeht Program modeled after Ontario's Red Meat Plan.

6. The growth of the sheep feedlot industry in Alberta should be examined and a development program for Saskatchewan should be implemented if possible.

Recommendations

Summary

(continued)

7. The province should continue to support the Regional Shepherd program.

8. We recommend expansion of the farm-gate sector through promotional and marketing strategy efforts.

9. A "Farm Fresh Lamb" marketing program should be launched to increase farm-gate and butcher shop sales of lamb.

10. We recommend that farm-gate sales of lamb be increased from 40 per cent to 50-60 per cent of provincial lamb consumption.

11. We recommend that a directory be published of sheep breeders and other providers of supp··· vices to the Saskatchewan industry.

12. We recommend that the distribution channel for out-of-province sales be broadened from one to several channels which all maximize producer returns.

1. Introduction

Phase 1 of the study of Saskatchewan's lamb market consisted of a market assessment and characterization of the market. In this report, which constitutes Phase 2, the results of Phase 1 are used to design a development strategy for the Saskatchewan lamb industry.

The development strategy in Phase 2 is based on the concept of marketing strategy, which is described in the following section. Since it follows directly from the findings of Phase 1, the market characteristics identified in Phase 1 are summarized in a marketing situation analysis framework in this report for the sake of convenience.

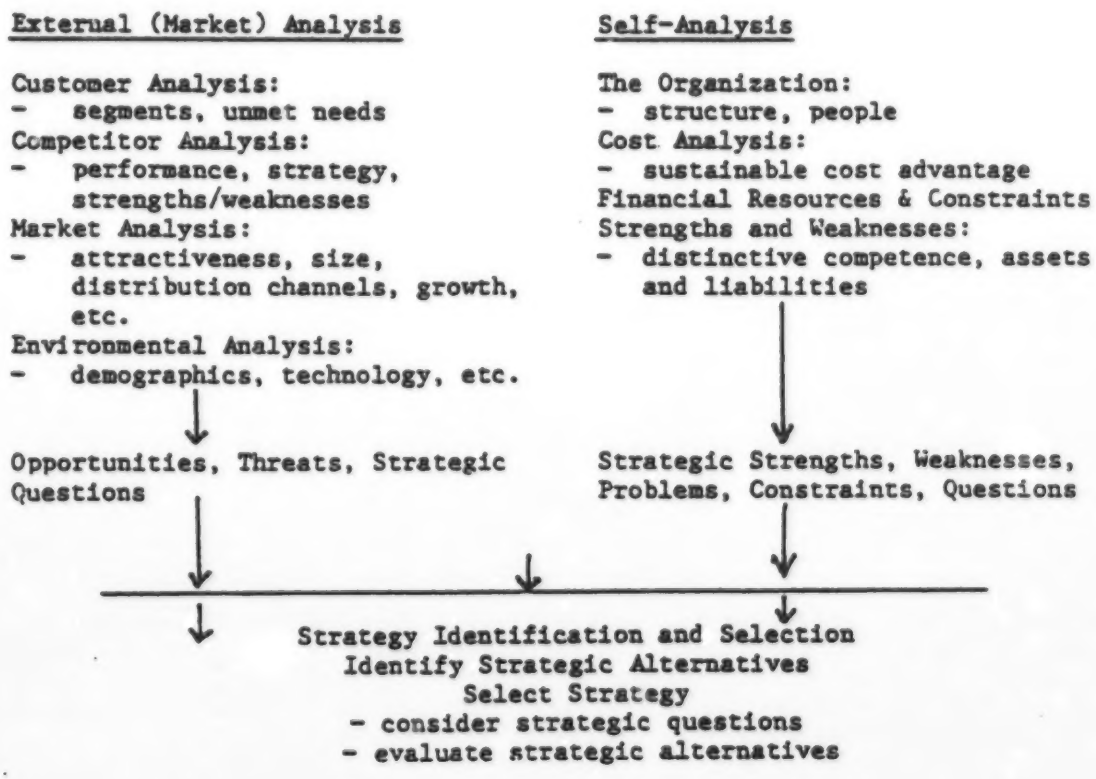
A number of strategy options are developed in the report, and the advantages, disadvantages, and risks of each are presented. The alternative options are evaluated on the basis of their strategic strengths and weaknesses and a preferred strategy is selected. Finally, recommendations are presented for the implementation of the preferred strategy.

This report has received funding from the Canada-Saskatchewan ERDA Agreement

2. Marketing Strategy and the Lamb Industry

The concept of marketing strategy involves matching an organization or industry's strengths and weaknesses with opportunities and threats in the marketplace. The optimum strategic direction, of course, places the industry's strengths against market opportunities, and minimizes the effects of the industry's weaknesses and market threats.

The process of formulating marketing strategy, therefore, first involves a process of analysis. The organization or industry is analyzed to determine its strengths and weaknesses and the market is analyzed to identify opportunities and threats. From this analysis emerges the information necessary to identify and select strategies. The process is illustrated below.



Phase 1 of this study of the Saskatchewan lamb industry was concerned with the analysis, both external and internal, necessary for strategy development. This phase of the study, Phase 2, uses this information to develop a strategy for the industry.

The first sections of this report will summarize and organize the information from Phase 1 in a format that will facilitate the identification and selection of strategic alternatives. The first section will present an internal analysis of the industry, including its objectives, strengths, and weaknesses.

3. Saskatchewan Lamb Industry - Situation Analysis

3.1 Internal Analysis

Our analysis in Phase 1 indicated that the Saskatchewan sheep and lamb industry is an industry in need of improvement. The sheep and lamb population has been declining for many years in the face of numerous production constraints. Furthermore, the small and decreasing average flock size indicates an industry with declining efficiency and decreasing economies of scale.

Difficulties in the industry are not confined to the production of animals, however, but extend to other stages in the marketing process, including marketing of live animals, slaughtering, and distribution.

Table 1 summarizes the strengths and weaknesses of the Saskatchewan lamb industry at each of these steps. The steps of slaughtering and distribution are included, of course, because of the fact that some segments of the lamb industry believe that the Saskatchewan lamb industry must control all steps in developing a local market.

While the industry does have strengths in certain areas, it appears to suffer from many weaknesses at all stages of the production and distribution process. There is also a lack of unity regarding industry objectives and levels of commitment to industry development. For example, farm gate marketers who are able to sell all of their lambs at the farm gate, and whom are unwilling to expand may be reluctant to contribute to development efforts in other markets.

Because of these weaknesses and differing objectives, there are risks which the industry faces in developing a marketing strategy. These include opportunity cost, which implies that industry efforts and funds

spent in developing a certain strategy may be more profitably used for other purposes.

Perhaps the major weakness of the industry is that it does not currently have a significant cost advantage. Relatively high production and assembly costs combine to force up the cost of producing and marketing Saskatchewan lamb and reduce the returns to producers. However, there are opportunities to reduce the costs of production and assembly. These include irrigated and dryland community pasture and feedlot developments. Such opportunities may reduce Saskatchewan lamb production costs to give the industry a sustainable cost advantage.

3.2 External Analysis

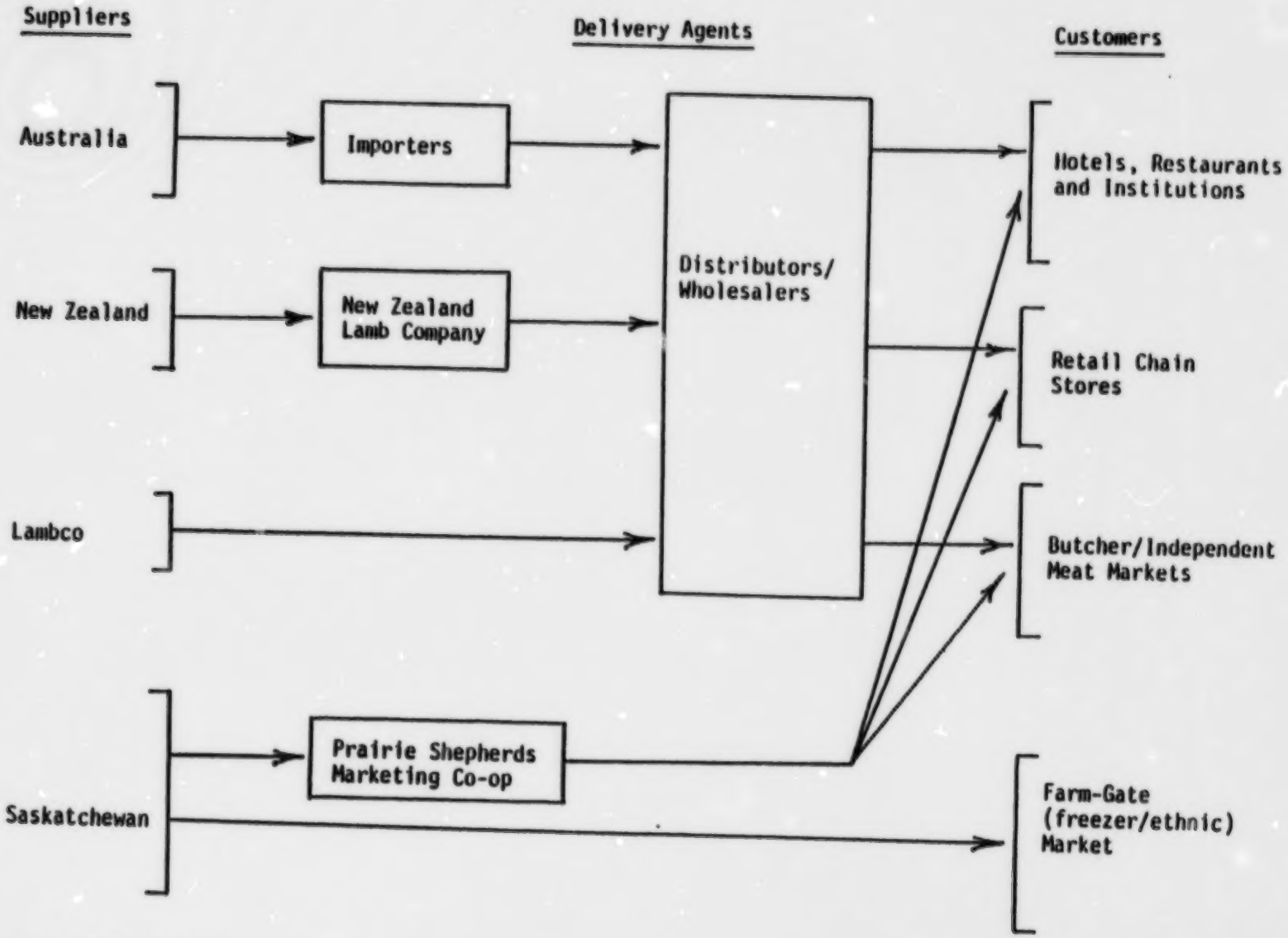
The market analysis in Phase 1 provided the basis for an external analysis to Saskatchewan's lamb industry. In addition to characterizing the various markets (buyers) for lamb, it described distribution channels and discussed competitors in the marketplace. The analysis included the market for lamb consumed in Saskatchewan, a graphic overview of which is provided in Figure 1. The analysis also included the markets for Saskatchewan lamb, which consist primarily of out-of-province markets. An overview is provided of these markets in Figure 2.

3.2.1 Buyers

Out-of-province buyers include eastern Canadian abattoirs and wholesalers, the Lambco processing plant in Alberta and U.S. processing plants. These buyers purchase live lambs from Saskatchewan for processing and resale. The characteristics and requirements of these buyers are summarized in Table 2. It must be remembered that the channels by which Saskatchewan lambs are marketed to these buyers are

Figure 1

Saskatchewan Lamb Market Structure in 1986/1987



Total 610,000 lbs.

Figure 2

Distribution Channels for Saskatchewan Lamb Production in 1986

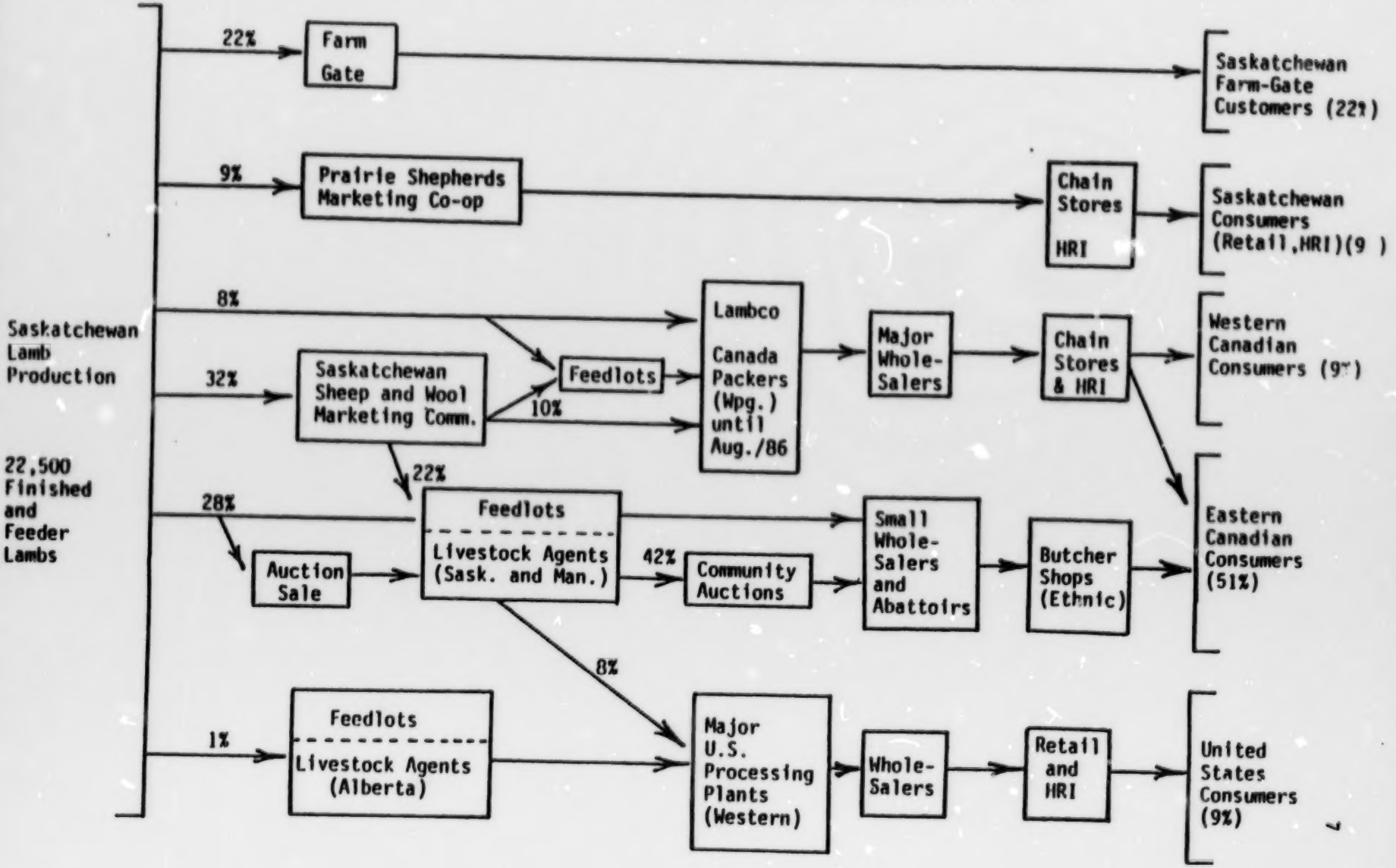


Table 1

Saskatchewan Lamb Industry

Internal Analysis

Objectives

1. Variety of objectives, some conflicting
   - farm-gate marketers, pure-bred breeders, hobbyists, commercial producers, etc.

Production

2. **Strengths**

1) Relatively high sign-up rate in tri-partite stabilization plan
2) Strong interest in expansion
3) Well developed farm-gate market
4) ROP program to improve quality
5) Industry research in irrigated pasture

Weaknesses

1) Long distance from markets which requires a low cost of production to remain competitive in distance markets
2) Small & decreasing production base
3) Inconsistent and seasonal supply
4) Small and decreasing average flock size
5) Shift to intensive production leads to increased labor
6) Highly dispersed sheep population
7) Decreasing economies of scale ?
8) High turnover rate among producers
9) Decreased government support for extension, education, etc.

Live Animal Marketing

Strengths

1) Role of SSWHC in communicating market information
2) SSWMC coordinates assembly and marketing of animals including
3) small lots which otherwise would not be economically marketed to out-of-province markets

Weaknesses

1) Highly dispersed & small flocks increase complexity and expense of assembly & marketing
2) Lack of feedlot facilities to reduce costs of production, increase marketing efficiency, etc.

Table 1 (Cont'd)

Saskatchewan Lamb Industry
Internal Analysis

Slaughtering and Processing

Strengths	Weaknesses
1) Existence of several domestic plants for custom-killing	1) No federally inspected plants killing lamb in Saskatchewan 2) Only slaughtering is on a custom-kill basis at domestic plants 3) High cost of custom killing increases costs of lamb sold to retail and HRI sectors 4) Lack of economies of scale also contribute to high costs 5) Lack of technology for boxed lamb (ie. broken vaccum packed carcasses, etc.)

Marketing and Distribution Channels

Strengths	Weaknesses
1) Well developed farm-gate market	1) The industry has limited expertise in distribution and marketing of meat products 2) Hiring expertise in this field is very expensive relate to the sales volume 3) Lack of capital for advertising and promotion 4) High cost of distribution and marketing also increase wholesale cost of Saskatchewan lamb 5) Highly dispersed market relative to size 6) Difficulty supplying market consistently 7) Difficulty supplying the types of products increasingly demanded by the HRI and retail sectors

Table 1 (Cont'd)

Saskatchewan Lamb Industry
Internal Analysis

Opportunities	Risks
1) Potential for reducing costs of production and increasing producer returns through irrigated pasture development and feedlot production based on feedgrains and crop residues	1) Opportunity cost - i.e. rewards from an alternative venture
2) Tripartite plan will stabilize producer returns, potentially leading to larger and more efficient flock sizes	2) Financial
	3) Image
	4) Morale of industry
	5) Loss of market position

often long and complex, and that the ownership of lambs may change several times before the consumer purchases the final product. Therefore, these "buyers" may not represent the initial, direct buyers of Saskatchewan lamb. However, they do represent the ultimate buyer of live lambs, and are therefore emphasized over other channel members in this analysis.

Table 2 also summarizes the markets and buyers for lamb consumed in Saskatchewan. These buyers purchase lamb carcasses, cuts and other products. This market is supplied by imports as well as Saskatchewan lamb, and consists of four major buyer segments: retail chains, farm-gate HRI, and butcher shops/meat markets. The characteristics and requirements for each of these segments are summarized in Table 2.

From the buyer analysis a number of conclusions are apparent. First, the Saskatchewan market for lamb is small relative to the production base and the size of other markets out-of-province. Secondly, the requirements of the major commercial buyers in Saskatchewan are very demanding, relative to the out-of-province markets, and require technology and expertise which are not associated with lamb production but are more closely associated with processing and distribution.

3.2.2 Competitors

A detailed analysis of the competition faced by the Saskatchewan lamb industry was not specifically identified in the terms of reference for Phase 1 of this study. However, the market research for Phase 1 provided considerable information on the competing sources of lamb in the Saskatchewan marketplace. This information is summarized in Table 3.

New Zealand and Australia represents two of the major competitors in the Saskatchewan marketplace. The major strength held by each of these competitors is a cost advantage. Much of this is derived from their low costs of production. Natural forage is generally the cheapest feed for maintaining breeding ewe flocks and for producing slaughter lambs.

Table 2

Summary of Buyer Analysis

Buyer	Characteristics	Requirements
1) Eastern Canadian Abattoirs/Wholesalers	- major market - numerous small buyers - long distribution channel - buy from western Canada, Maritimes, U.S. or locally	- live lambs (40-100 lbs live weight) - relatively large lots - dependable supply, seasonal peaks - cost of lambs is a major criterion
2) U.S. Processors	- major market - growing market - few, large buyers - long distribution channel - buy from western U.S. or Canada	- live lambs (120 lbs live weight) - large and very uniform lots - consistent supply/consistent size - forward buying on contract - cost is a major criterion
3) Lambco	- major market - stable to slow growth	- live lambs (110 lbs live weight) - consistent supply - cost is a major criterion
4) Saskatchewan	- small market overall	- requirements vary with each segment
a) Retail Chains	- largest segment - stable or slow growth - few, major buyers - "commodity" approach to fresh meats - high volume, low margin - highly cost competitive - 2nd largest segment	- lowest cost ("commodity" approach) - consistent supply/quantity - increasing trend to "boxed" vaccum-packed primal cuts, or retail cuts - trend to brand identification - marketing expertise/resources by suppliers - low fat/finish meats - locally produced product
b) Farm-Gate	- stable or slow growth - numerous individuals - direct marketing to consumer	- ethnic market: spring lambs or light lambs - non-ethnic market: heavy lambs (120 lbs. + liveweight) - seasonality of supply is not a concern since lamb is frozen) - preference for locally produced lamb - will purchase whole or half carcasses

Table 2 (Cont'd)

Summary of Buyer Analysis

Buyer	Characteristics	Requirements
c) HRI	- 3rd largest segment - stable or slow growth	- consistent supply/quality - consistent size of cuts/portions - preference for certain cuts - appropriate size of cuts (esp. racks) - promotion materials/expertise - low cost
d) Butcher/Meat Market	- smallest segment - stable or slow growth - often "order-takers" for customers	- prefer local or Canadian product - prefer certain primal cuts - will take whole carcasses on order for customers

Therefore, the large range areas of Australian and New Zealand and the mild climate give these areas a decided cost advantage.[1] It is beyond the scope of this study to compare the production costs and economics of Saskatchewan and the major exporting countries. It is apparent, however, that the production cost advantages of these countries are reinforced by economies of scale in processing and distribution to result in a highly cost competitive product in the North American market.

The Lambco processing plant in Alberta is unique in that it can be considered both as a buyer and as a competitor. A significant volume of Saskatchewan lamb continues to be transported to Lambco to be slaughtered for the Canadian market, making Lambco a major buyer. However, any attempt by the Saskatchewan lamb industry to market lamb locally places Lambco in the position of being a competitor in the market.

The Saskatchewan lamb industry faces competition not only in the Saskatchewan market for lamb products, but in the out-of-province markets for live lambs. This competition is from lamb producers in other producing areas, including other provinces, and from U.S. producers. The characteristics of these competitors are also summarized in Table 3.

The main dimensions of the competition between competing suppliers of live lambs are production costs, and the costs of (and ability to) assemble and transport large, uniform lots of lamb. Costs of production are related to feed costs, subsidies, and economies of scale. Other producing provinces do have programs to improve the positions of their industries in these areas, giving them a relative advantage over Saskatchewan. Saskatchewan also faces a more difficult and costly task of assembling and transporting lambs due to its small and widely dispersed flocks, lack of feedlots, and the longer distances to markets relative to other competing suppliers.

Table 3

Summary of Competitor Analysis

I. Lamb Carcasses/Products

Competitor	Characteristics	Strengths/Weaknesses
New Zealand	- large, aggressive - dominant in Cdn. market (i.e. frozen lamb)	Strengths - low cost - strong distribution system & expertise - consistent supply & qualith - branded product (N.Z. Spring Lamb) - able to supply retail (frozen) cuts - proper size cuts for HRI portion control Weakness - quality perceived as inferior to Cdn. lamb in some markets
Australia	- large, aggressive - dominant in Cdn. market (i.e. chilled lamb)	Strengths - lowest cost - consistent supply - able to supply primal cuts Weaknesses- quality & consistency perceived as inferior to Cdn. lamb in some markets - volume limited by air transport availability

Summary of Competitor Analysis

Lambco	- only national distributor of fresh	Strengths - scale economies result in a cost advantage over other Canadian suppliers - consistent supply - able to supply cryovaced "boxed lamb" (carcasses or specific cuts) - strong distribution system & expertise Weaknesses- high cost relative to imported lamb

Table 3 (Cont'd)

II. Live Lambs

Competitor	Characteristics	Strengths/Weaknesses
U.S. Sheep Industry	- concentrated in western States	Strengths - larger industry - developed feedlot system - relatively close to major processors - ability to assemble and supply uniform lots - electronic auction marketing Weaknesses- Cdn. lamb has currency exchange advantage
Ontario/ Quebec	- larger than Sask. industry	Strengths - programs to increase efficiency of production base - close to major Canadian markets Weaknesses- potentially higher production costs
Alberta	- 2nd largest producing province	Strengths - closer to U.S. markets and Lambco - feed subsidy programs - growing feedlot industry - relatively close to major processors - ability to assemble and supply uniform lots

4. Strategy Alternatives

The formulation of a marketing strategy for the lamb industry, like the characterization of the market, is complicated by the dual nature of Saskatchewan's lamb market: in-province versus out-of-province.

One of the fundamental marketing strategy decisions, therefore, is between development of local markets versus out-of-province markets. Another fundamental decision involves the question of marketing live lambs versus processed lambs. Processed lambs for out of province markets will not be considered as a strategic alternative at this time for a number of reasons, including:

1) The shortage of lambs in western Canada (reflected in Lambco's declining volume)
2) The need for very large numbers of animals to achieve sufficient economies of scale in processing
3) The need to slaughter under federal inspection to allow interprovincial shipments of lamb
4) The fact that there is already excess federally inspected lamb slaughter capacity in western Canada.

As a result, four strategic options have been identified for the Saskatchewan lamb industry: (1) maintain the status quo, (2) a hands-off approach by the provincial government, (3) develop local markets for slaughtered lamb, and (4) develop the industry to meet out-of-province market opportunities for live lambs.

4.1 Option 1: Status Quo

This strategy is based on the premise that "the market" will resolve the industry's problems. This option is based on the following assumptions and arguments:

1) The Saskatchewan lamb industry makes a very minor contribution to the province's agricultural industry relative to other livestock. Farm cash receipts from sheep and lambs are less than half of one-percent of farm cash receipts from cattle, and less than two percent of those for hogs. It can be argued that the relative minor importance of lamb to Saskatchewan's agriculture base may not warrant major government expenditure in this area.

2) The provincial market for lamb is very small due to the small population size and a lower than average level of consumption per capita. Also, the competition (frozen New Zealand lamb and fresh/chilled lamb from Australia or Lambco) has sustainable cost advantages and distinct competencies in marketing to the major channels. Therefore, local marketing of slaughtered lamb is assumed to be not feasible under this option.

3) Out-of-province markets will continue to account for the majority of Saskatchewan's lamb production. However, it is assumed that Saskatchewan producers will be unable to capture a greater share of these markets, because the costs of production are too high to provide the producer sufficient returns.

4) Government should not subsidize inefficient producers. Eventually, under this option, inefficient producers will leave the market, leaving either large, efficient producers, or small to medium producers with well developed farm-gate markets. In the process, a more vibrant, efficient industry will be created.

5) Government support of the industry will be minimal, limited to continued support of the Saskatchewan Sheep and Wool Marketing Commission in its present role, and the National Tripartite Stabilization Plan.

The assumptions discussed above provide the rationale for the Status Quo, Option is option has a number of implications which represent both advantages and disadvantages.

Advantages

1) Limited financial resources are not put at risk in developing more aggressive strategic options; given the relative size of the provincial lamb industry, this is an important advantage.

2) Rationalization will occur in production: smaller and more inefficient producers will be forced out of the market by costly production economics.

3) Government support will be limited to maintaining the price stabilization program and the SSWMC, and to limited producer extension services.

Disadvantages

1) The industry will probably continue to contract or, at best, will experience very modest growth (growth being due largely to the price stabilization program). Market share for live lambs will be lost to the other producing provinces which have a more proactive approach to the industry.

2) As a result of this negative or low growth situation, the agricultural economy of the province will fail to materialize on a potential avenue for diversification.

4.2 Option 2: Hands-Off Approach

Option 2 is in almost all respects similar to Option 1 except that the provincial government, rather than maintaining its commitment to

the lamb industry, would actually decrease its commitment. The assumptions and arguments used in this option are the same as those which apply to Option 1 with the exception of the following:

1) Government support of the industry will be reduced to a minimum. This implies that support for the Saskatchewan Sheep and Wool Marketing Commission beyond the funding provided through the check-off on lamb sales would be withdrawn. Similarly, any extension services, including such programs as the Regional Shepherd program, would be withdrawn. The only major support commitment remaining would be through the tripartite price stabilization scheme.

2) The rationale for this approach would be that the government, to the maximum extent possible, would be putting the industry in a position to decide its own future. Given that the SSWMC markets approximately 30-35% of the province's lamb production, the industry may decide that individual producers and informal cooperative arrangements among producers will be sufficient to accomplish the assembly and marketing of animals, and the dissemination of market information. Alternatively, the industry may decide to continue the operation of the SSWMC through an increased check-off.

Option 2 has a number of advantages and disadvantages. These are similar to those for Option 1 (Status Quo) with the addition of the following:

<u>Advantages</u>

1. Government support for the industry will be further reduced, resulting in additional savings for the province.

Disadvantages

1) This option implies a decision by the provincial government not to be involved in the lamb industry. However, this would be inconsistent with the province's support of the national tripartite stabilization plan, which extends to 1995.

2) The savings to be realized from this option are relatively minor, and have to be evaluated in light of the lost benefits to the industry. This would include the loss of the convenience of a single desk selling agency, the increased costs of private or cooperative marketing by producers, and the loss of the SSWMC as a coordinating role in the industry.

4.3 Option 3: Marketing Warfare: Develop Processing and a Local Market

This strategy is aimed at revitalizing the Saskatchewan lamb industry by selling Saskatchewan lamb in local markets. This would involve displacing imported fresh and frozen lamb in the largest commercial market segments: retail chain stores and HRI. It would also involve significant promotional activity as part of an aggressive market growth strategy to increase Saskatchewan consumption of lamb. This is essentially the market strategy option pursued by Prairie Shepherds Marketing Co-op in 1986 and early 1987.

Because Saskatchewan product is higher cost than competitors product, it would be necessary to promote Saskatchewan lamb as superior to other products because it is fresh and locally produced.

Assumptions

This option is based on the following assumptions and arguments:

1) The development of local markets will provide the industry an alternative to selling lambs out of province. This will result in a number of benefits to producers, including:

- reduced transportation costs (freight, shrinkage, etc.) in turn resulting in increased returns
- elimination of penalties for heavier lambs
- greater producer control over marketing.

2) Local lamb will displace imported fresh and frozen lamb in the Saskatchewan market. In order to achieve the volume necessary, heavy promotion will be required to displace imports and to increase per capita consumption of lamb in Saskatchewan.

3) Competition with imported fresh or frozen lamb involves a marketing warfare strategy of frontal attack. This means that the Saskatchewan industry would have to compete head-on with New Zealand, Australia, and Lambco in the retail chains and HRI segment.

The implications of this option are presented below:

Advantages

1) Option 3 will provide the producer with higher returns by reducing transportation costs, and will provide the producer with more control over the marketplace.

2) Displacement of imports and increased consumption of Saskatchewan lamb, if great enough, will lead to an increase in Saskatchewan's lamb production base. This contradicts statements made elsewhere in this report.

Disadvantages

1) Option 3 will require a large and ongoing investment by the Saskatchewan lamb industry and the government to finance the operations of a local lamb marketing organization and to carry out consumer and retailer advertising and education programs.

2) There is a high risk associated with such a strategy. Large investments in promotion may fail to capture markets from competitors or increase market consumption. Even worse, these investments may increase the overall market, but give a proportionately greater share to competitors.

4.3.1 Feasibility of Option 3

Potential Market Opportunity

It is estimated that, even if Saskatchewan lamb were to completely displace imported lamb in the retail and HRI sectors, the market would represent an estimated 7,000 lambs. This is slightly less than one-third of Saskatchewan's estimated lamb production of 22,500 lambs. Saskatchewan, therefore, would still be highly dependent on out-of-province markets for almost half of its production (see Appendix 1 for details).

It has been argued that an aggressive promotional program could substantially increase Saskatchewan lamb consumption. To support this claim, it is argued that the Alberta industry has increased lamb consumption in Calgary and Edmonton 6 pounds per capita, compared to the national average of 1.8 pounds per capita.[2] This figure must be used with caution, however. If accurate, this consumption level means that New Zealand and Australia have benefitted greatly from Alberta's promotion. The maximum that Lambco could account for would be approximately 1.8 pounds per capita (30% of the market) compared to 4.2 pounds (70%) for imported lamb (see Appendix 1 for details).

It must also be recognized that an aggressive marketing campaign such as that carried out in Alberta is extremely costly (in the range of $85,000 to $90,000 dollars per year raised through a producer check off). Furthermore, Lambco representatives indicate that it has required

a long and steady commitment of funds over a period of twelve years to accomplish this consumption increase in Alberta.

The market opportunity following this strategy, therefore, is not estimated to be extremely large. Assuming a three-fold increase in the amount of lamb sold in the retail and HRI sectors in Saskatchewan, and constant market shares, imported frozen New Zealand lamb would increase by an estimated 732,000 pounds, and local fresh lamb (assuming no competition from Lambco) by 244,000 pounds. This increase would represent an additional 4,900 lambs at an average carcass weight of 5 0 pounds.

Competitive Reaction

The development of local markets may initially be percieved as filling a niche, with the argument that "it would be virtually impossible for a firm based outside of this province to develop and service the relatively small markets which exist in Saskatchewan."

However, this argument is contradicted by the corresponding claim that the market can be dramatically increased through promotion. It is claimed for example, that "if we could increase lamb consumption by one pound per capita, Saskatchewan consumers could then eat about 36,000 lambs." This is equal to approximately 45% of Lambco's present production, and is more than twice the size of Lambco's Vancouver market (15,000 lambs per year), which has recently been lost completely to Australian chilled lamb imports.

Obviously, any success in increasing the consumption of lamb in Saskatchewan makes the market more attractive to competitors, and increases the likelihood of competitive reaction (greater volume, lower prices).

This option must, therefore, be seen as frontal attack, to use the concept of marketing warfare. In a frontal attack, the aggressor matches the industry leader in every aspect of the marketing mix or matches the leader on all other counts and attacks on a price advantage basis. For a frontal attack to succeed, the aggressor needs a considerable strength advantage over the industry leader. Frontal attacks are highly costly, and their results are very uncertain.

As can be seen from the external and internal situation analysis of the preceding chapter, the competitors have a considerable competitive strength advantage in terms of: sustainable cost advantages due to economies of scale, etc.; expertise and well developed strengths in distribution and promotion; consistent supply; consistent quality; and financial resources.

To illustrate this point, Prairie Shepherds Marketing Co-op was seriously affected when one of its major accounts switched to chilled Australian lamb because of the significantly lower cost. Also, when PSMC withdrew from the marketing of fresh lamb, Lambco began to move in to fill the market demand created by PSMC.

Market Requirements

For the Saskatchewan lamb industry to succeed in this strategy would require a strong match between the industry's strengths, and the requirements of the marketplace. Table 4 summarizes the requirements of the major sectors of the Saskatchewan market, and compares these with the strengths/weaknesses of the Saskatchewan lamb industry and the competitors in the marketplace.

Table 4 makes it obvious that the Saskatchewan lamb industry presently has very limited strength in the area of key market requirements, particularly in relation to the major competitors. Only in the butcher shop/meat market sector does Saskatchewan lamb have significant strength relative to competitors. However, as Phase 1 indicated, this is a very small market segment in Saskatchewan.

Table 4

Summary of Supplier Strengths versus Major Market Requirements

Market Requirements	Major Competitors	Sask. Industry
Retail Chains		
low cost	strength	weakness
consistent supply/quality	strength	weakness
sub primal or retail cuts	strength	weakness
brand identification	strength (N.Z. frozen)	weakness
marketing expertise/resources	strength	weakness
HRI		
consistent supply/quality	strength	weakness
consistent size of cuts	strength	weakness
availability of certain cuts	strength	weakness
appropriate size of cuts (racks)	strength	weakness
promotion materials/expertise	strength	weakness
low cost	strenth	weakness
Butcher Shop Meat Market		
local product	weakness	strength

Risks

There are considerable risks involved in this strategic option. These include:

1) This strategy requires high financial investment in consumer advertising and education. However, only minor returns may result if promotional investments result in market expansion for New Zealand, Australia, and Lambco. The fact that New Zealand holds the major market share in the retail and HRI sectors suggests that it may receive proportionally greater benefits from a local advertising program.

2) The risk that advertising will benefit competitors to a greater extent than the Saskatchewan industry is heightened by the fact that fresh meat in commercial channels continues to be marketed as a commodity, rather than as branded products. It is often difficult to identify the origin of fresh lamb in supermarket displays. Without a strong brand identification for Saskatchewan lamb, promotion tends to benefit all competitors in this commodity group. (Saskatchewan consumers may have a strong "loyalty" to locally produced lamb, but this may be expressed in the relatively high volume of farm-gate sales.) Saskatchewan runs the risk of increasing primary demand (for lamb in general) as opposed to secondary demand (for Saskatchewan lamb in particular), to the greater benefit of the competition.

3) There is a very real risk that by taking a narrow local approach, the Saskatchewan lamb industry may be fragmenting and weakening western Canada's position in the Canadian lamb market. Lambco was initially established to aid the western Canadian sheep industry as a whole, and received support from the Saskatchewan industry and government. Lambco has

considerable excess capacity, and is finding it increasingly difficult to obtain lambs for slaughter, even though it imports significant numbers from the U.S. To compete with Lambco using strong provincial financial support would have the effects of (1) reducing Lambco's market, and (2) decreasing supplies of lamb available to Lambco.

4) There is a risk that, by attempting to divide the market, Lambco and the Saskatchewan lamb industry will both be weakened, to the advantage of importing countries. Should Saskatchewan fail to compete successfully in local markets, and should Lambco close, the Saskatchewan lamb producer would be left with fewer marketing options. Fewer buyers and less competition in an already thin market would potentially mean lower prices for Saskatchewan lamb, and the need to ship lambs even further.

4.4 Option 4: Specialized Development Strategy

This marketing strategy is based on the recognition that Saskatchewan has traditionally relied on out-of-province and farm-gate markets for lamb. Unlike Options 1 and 2, however, this option recognizes that significant potential may exist for the Saskatchewan lamb industry to replace live lambs imported from the U.S. into Canada, and to increase exports to the U.S. provided the Saskatchewan industry can become more competitive.

Furthermore, Option 4 also proposed expansion of farm-gate sales to raise provincial self-sufficiency to 50-60 percent of Saskatchewan consumption of lamb.

We describe this strategy as a specialized development strategy because it recognizes two separate lamb production sectors and seeks to cause development in both sectors.

This strategic option represents a more progressive and proactive strategy to take advantage of market opportunities. It is based on the following assumptions and arguments:

1) Significant opportunities exist for the Saskatchewan lamb industry to displace large numbers of live lambs imported from the U.S., and to increase exports of lamb to the U.S.

2) Significant opportunities exist for the Saskatchewan industry to become more cost competitive through: (1) increasing the size of "live-lamb" operations to realize economies of scale, and (2) reducing costs of production through irrigated and dryland pasture and/or feedlot developments.

3) Saskatchewan has an advantage in providing lamb through farm-gate and butcher shop market outlets. Farm-gate sales have largely developed without the benefit of promotion or marketing to the point that these sales represent 40 percent of provincial consumption. If promotional assistance was provided to the farm-gate sector, we believe that expansion of sales is possible. Therefore, the most cost effective way to increase local sales of lamb is encourage the farm-gate sector by providing promotional and marketing assistance.

4) Provincial support for industry development should be increased. This may include:
   - continued support of ERDA research into irrigated sheep pastures
   - adoption of a development plan such as Ontario's Sheep Development Plan (see Appendix 3), which provides grants to producers meeting minimum flock size and other requirements.

- adoption of programs to aid in the development of the lamb feedlot industry, possibly including grants or loan subsidies for capital facilities, and/or a feed grain subsidy similar to the Alberta Crow Benefit Offset Program. (See Appendix 4)
- promotional and marketing assistance program cost-shared with farm-gate producers.

Advantages

1) This strategy at the very root of the Saskatchewan sheep industry's limitations, including high production costs, declining production and efficiency, and supply seasonality.

2) The competition position of the Saskatchewan lamb industry will be improved through reduced production costs resulting from increased efficiency and scale economies.

3) This strategy takes advantage of Saskatchewan's irrigation and feed grain capacities.

4) Option 4 represents a coordinated approach to development of Saskatchewan's lamb production, from farm flock through feeding to marketing of live animals. It is also consistent with the province's support of the industry through the stabilization plan and through ERDA research into irrigated pasture.

5) It takes advantage of Saskatchewan's ability to supply lamb from the farm-gate to butcher shops and consumers.

6) Since the strategy is directed at two market areas (out of province and farm-gate), it spreads the activity base. Therefore, if one market development fails, the other may succeed.

Disadvantages

1) This strategy Option 4 will require a significant investment by the province to foster the coordinated development of the lamb industry.

2) There is a risk associated with this strategy. Investments in industry development may not be sufficient to improve Saskatchewan's competitive position in the market. Also, market opportunities may be threatened by an increase in production by competitors (especially the U.S.)., by the importation of live feeder lambs from Australia, or by a dramatic decline in the U.S. consumption of lamb. Changes in the currency exchange rates will also effect this market opportunity.

4.4.1 Feasibility of Option 4

Potential Market Opportunity

Phase 1 identified a significant opportunity for the replacement of live lambs imported into Canada from the U.S. During the past five years, imports of U.S. live lambs have averaged 41,500 slaughter lambs per year. The majority are imported into Ontario, but Lambco in Alberta has imported an average of almost 13,000 per year over this period.

Growing opportunities for exports of live lambs to the U.S. also exist. Since 1982, exports of live slaughter lambs, especially from the western provinces, to the U.S. have been increasing yearly. Exports in 1986 were almost ten times those of 1982 (from 1,714 slaughter lambs in 1982 to 16,658 in 1986). Exports of feeder lambs, on the other hand, have remained relatively unchanged over the same period. This indicates a greater level of finishing activity, particularly in Alberta feedlots.

The number of imported live lambs represents more than two times the number of Saskatchewan lambs sold through channels other than the farm-gate. Furthermore, the increase in exports of slaughter lambs to the U.S. since 1982 is almost equal to Saskatchewan's commercial lamb production.

The potential of this market is indicated by two trends. The first of these is the recent development of large lamb feedlots in Alberta. The second is the proposal by Australia to import large numbers (tens of thousands) of live lambs from Australia to western Canada for finishing, eventually to be sold in the North American market.

Competitive Reaction

The main competitive reaction which can be foreseen is import protection measures by the U.S. to restrict imports of live lamb from Canada. Given that the U.S. is a net exporter of lambs to the Canada, such action is not probable until this situation is reversed. By that time, it is likely that a free trade agreement will be in place, and such a competitive reaction will be precluded.

Competitive reactions by the competitors (i.e. producers in other provinces, particularly Alberta and Ontario), will likely be restricted to measures designed to reduce their production costs and give them a competitive advantage. Neither province, however, has been particularly successful at replacing the flow of imports from the U.S.

Market Requirements

The U.S. market requires large, consistent lots of uniform size in the 120 pound liveweight range. Alberta has been increasingly able to meet these requirements through its lamb feedlot sector. Saskatchewan has largely been unable to meet these requirements directly because of

the province's small, scattered and inefficient production base. However, Saskatchewan has been able to compete indirectly in this market through livestock agents who assemble lambs from throughout western Canada. Saskatchewan shares with other exporting provinces the advantage of the currency exchange rate, making Canadian lamb more competitive in the U.S. market.

The Eastern Canadian market constitutes Saskatchewan's largest market for live lambs. Ontario, like the U.S., requires large, consistent lots of lambs, but the U.S. industry has been more successful in supplying this market because of their consistent supply. The Saskatchewan industry, however, has the potential to supply this market indirectly through the livestock agent channel discussed above. This channel has been very successful in supplying western Canadian lamb to the Quebec lamb market. This market represents an outlet for marketing of Saskatchewan's lighter lambs (i.e. up to 100 pounds).

Lambco is less distant than the other out-of-province markets, and represents an opportunity for live lamb import replacement. The Saskatchewan industry is able to meet the requirements of this market through sales by SSWMC or by producers directly. Alberta's feedlot industry has been able to finish Saskatchewan feeder lambs for this market to the desired weight. This is less than the weight of lambs required in the U.S. (maximum 110 pounds), but again represents an outlet for Saskatchewan's medium slaughter lambs.

At present, Saskatchewan does not have sufficient volume of production to meet the consistency and transportation requirements of the most distant out of province markets. However, channels are already in place which allow Saskatchewan to access these markets. It is anticipated that, under this option, the increased production and the assembly of animals in the irrigated pasture and feedlot developments will allow an increasing percentage of live lambs to be marketed directly to processors in distant markets.

Risks

There are certain risks associated with this strategic Option 4, and these include:

1) Investment in industry development may not be sufficient to improve Saskatchewan's competitive position in the market. This may result in a continued downsizing in the industry, and unused capital facilities. However, development of the farm-gate sector will help to cushion the effect of any future down-sizing in the commercial sector which may result.

The risk that competitors will benefit to a greater extent from Saskatchewan's investment is not a concern. Investment to develop Saskatchewan's production base to fill the demand in existing markets is significantly different from the concept of investing to create market demand in the face of very strong competitors.

5. Strategy Selection

The status quo option (Option 1) will have a minor negative impact on the industry. Under Option 1, Saskatchewan will continue to be dependent on out-of-province markets, but will lose market share in live lambs to the other producing provinces, which have a more proactive approach to the lamb industry. Quebec and Ontario will become more self-sufficient in lamb production under such programs as the Sheep Development Program of Ontario's Red Meat Plan. Similarly, Alberta will continue to develop its feedlot industry with such programs as the Crow Benefit Offset Program, and will capture a greater share of the market to Lambco and U.S. processing plants.

The negative effects of this program will be partially offset to the extent that the tripartite stabilization plan and market forces are able to bring about rationalization of the industry, so that larger and more efficient producers remain.

The long-term effect of the "hands-off" approach (Option 2) will be similar to the status quo option, but will likely occur more quickly and to a larger extent. The corresponding savings to the province will also be greater. The loss of market share to other provinces, the increased difficulty and expense in assembling and marketing live lambs, and other factors, will ultimately result in a much smaller industry largely based on the farm-gate market.

Option 3, a frontal attack in developing processing and a local market, is an option with considerable risk. It is based on the assumption that high investment, particularly in promotion, will lead to significant returns from market growth. Given the dominant position of the competitors in the market, investment leading to market expansion will benefit the competitors disproportionately. Differentiation of Saskatchewan lamb, given the "commodity" nature of the market for meat, will be extremely difficult, but is absolutely essential for the success of this strategy.

In addition to the high risks associated with Option 3, a situation analysis reveals that most of the major success requirements in the industry correspond to weaknesses in the Saskatchewan lamb industry. This has historically been a problem for the Canadian sheep industry, as discussed in a 1972 study of the Alberta sheep industry:

> The history of producer-operated plants in both Canada and the United States indicates that most such ventures have been failures. Producers would probably be further ahead by concentrating on increasing efficiency in production methods and in attempting to improve existing marketing channels rather than attempting to build new ones.
>
> Small plants financed by farmers would probably operate on a shoestring budget and have difficulty attracting large amounts of capital for expansion . . .
>
> Finding good managerial and sales staff to operate the plant would likely be a problem too, partly because of the possibility of interference from individual producers and partly because there would not be many properly qualified people willing to become involved in this type of operation without fairly high salaries . . .
>
> Small producer operated plants would encounter substantial overhead in that the sales staff needed to handle the product do not decrease proportionally with declining volume of sales.

Although many of the above comments apply to a producer owned and operated plant, as opposed to the approach of custom-killing in existing plants as used by Prairie Shepherds Marketing Co-op, the general principles still apply. This is particularly true of marketing and distribution of the product.

The difficulty of succeeding in this option is underscored by the failure of Prairie Shepherds Marketing Co-op's major attempt in this strategy. It can be argued that sufficient provincial funding would have developed the local market to the point that the Co-operative would have remained financially viable. However, this ignores several strategic questions: (1) would the competition benefit disproportionately from our investment in promotion, (2) could the investment yield greater returns elsewhere, (3) is this strategy in the best interests of the entire industry?

From a marketing and industry strategic perspective, Option 3 has several weaknesses. It is based on the premise that the Saskatchewan lamb industry is declining, and that developing local markets will strengthen the industry. In other words, this means developing a market to overcome the industry's weaknesses. This is in direct contradiction to the concept of strategic marketing, which is to match your strengths with opportunities in the market.

We recommend Option 4, a Specialized Development Strategy, for several reasons:

1) It is a less risky strategy. Investments under this strategy are not at risk of benefitting competitors to a greater extent than the Saskatchewan lamb industry, which is the risk with a high investment in Option 3. Instead, benefits will accrue directly to the Saskatchewan producer.

2) It is also less risky in that the success of the strategy is not based on the viability of a single commercial enterprise. Instead, the risk is diversified throughout the industry.

3) It does not risk undermining the position of the western Canadian industry in terms of the Canadian lamb market by weakening the position of Lambco, which is sometimes important as a buyer, not simply a competitor.

4) It is designed to meet existing and very significant market needs. Import replacement opportunities are represented by an average annual import of over 40,000 lambs from the U.S. Export opportunities are represented by increasing imports of slaughter lambs from western Canada to the U.S.

5) It is designed to develop Saskatchewan's strengths in irrigation and feed potential.

6) It is based on existing production capacity and marketing channels, and does not require the immediate development of new channels to succeed. However, it does hold potential for more efficient marketing channels as development proceeds.

7) It is more consistent with the concept of marketing strategy. Rather than looking at developing a new market to overcome the industry's failings, it identifies market opportunities and develops the industry's strengths in order to take advantage of these market opportunities.

Other Strategy Possibilities

For the sake of comparison, the strategies developed for the lamb industry in Ontario and British Columbia are presented in Appendix 2. Generally, both of these provinces, in spite of their larger industries, and considerably larger markets, have recommended a strategy based on the marketing principle of "build from strength." They have recommended that the retail chain stores and the HRI industry are market segments that should not be initially targeted by the lamb producers in each province. Instead, they have recommended a strategy of market share growth and market expansion in the markets where they are presently strong and well positioned: the butcher shop/independent meat market segment, and the farm-gate sector.

This approach by each of these provinces involves the strategy of the flanking attack (in marketing warfare terminology), or niche seeking. There appears to be strong support for this strategy in several other provinces.

How well this strategy could be applied in Saskatchewan is unknown. Certainly the farm-gate market is a major market for lamb in Saskatchewan, and Saskatchewan producers control this market almost

exclusively. Undoubtedly the market could be expanded to some extent by a promotion effort similar to Ontario's Country Fresh Lamb Farmgate Program. This program supplies posters, farm-gate signs, recipes, and order forms to farm-gate marketers. A list of lamb suppliers is also supplied to the public.

The butcher shop market in Saskatchewan is an extension of the farm-gate sector. Therefore, a promotion campaign aimed at this segment similar to Ontario's "Certified Country Fresh Lamb Dealers" program is probably warranted based on these factors: (1) it is a market which does prefer local lamb, (2) many of these stores indicated that they have difficulty obtaining lamb from any source, (3) it begins the process of building a consumer franchise for Saskatchewan, and (4) the investment in this program would be relatively modest.

6. Recommendations

Specialized Development Strategy

The research in this report has shown that the Saskatchewan sheep industry is composed not of one type of producer but instead, it is composed of several different types of sheep enterprises such as:

1. Commercial producers who sell 100% of the production to out-of-province markets.

2. Farm-gate producers who sell 100% of the production directly to consumers.

3. Combination Commercial/Farm-gate

4. Sheep Breeders

5. Hobbyist

These types of sheep enterprises are so different that they sometimes have very little in common. We believe that these differences, although subtle, slow the process of development. This is because developing common goals and strategy generally occurs on the most basic level where industry-wide agreement is possible.

Therefore, a development strategy for Saskatchewan should recogize the specialized nature of different sheep enterprises.

I. Short Term

Recommendation 1

We recommend that a three pronged development strategy should be implemented through the SSWMC to:

A. Increase Commercial Sector Competitiveness
B. Increase Farm-Gate Sales
C. Broaden Distribution Channels Servicing Out-of-Province Markets.

A. Commercial Sector Competitiveness

This sector is composed of various sized farms in Saskatchewan that market lamb to out-of-province markets. It represents approximately 70-80 per cent of the province's lamb production and production has been steadily declining in recent years.

Recommendation 2

We recommend that the commercial sector should undergo a change to lower cost of production and assembly of lamb and thereby increasing its competitive position with U.S. lamb in the Ontario, Quebec and Alberta markets.

The commercial sector must shift towards larger economies of scale through the use of irrigated and dryland community pasture projects. Research work is already underway through the ERDA Irrigated Pasture study to assess the feasibility of this production management method. In addition, feedlot finishing of lamb will also be studied.

Recommendation 3

We endorse the ERDA Irrigated pasture study and encourage the acceleration and expansion of this research.

Recommendation 4

The SSWMC and Saskatchewan Agriculture should regularly determine the cost of production for commercial sheep production on a year to year basis. This analysis, in turn, would be used to design programs to increase industry efficiency and furthermore, it would be used to measure the progress toward lower cost of sheep production and assembly.

Recommendation 5

Saskatchewan Agriculture should consider implementing a Sheep Development Program modeled after that in Ontario's Red Meat Plan (see Appendix 2). The plan should be designed to encourage producers to adopt new technology and to improve the productivity of their flocks. It can be designed as a five-year development plan, with the potential for renewal at the end of five years.

Recommendation 6

Feedlots are considered extremely beneficial for: increasing the value-added to local production, increasing the quality and consistency of lambs produced, reducing supply seasonality, and increasing marketing efficiency. The SSWMC, in cooperation with the province, should examine the growth of the lamb feedlot industry in Alberta. Factors necessary to develop the feedlot industry in Saskatchewan should be considered, including: feed subsidy programs, low interest loans, and subsidies. A development program should be designed for the feedlot industry based on these findings.

Recommendation 7

The province should continue to support the Regional Shepherd Program, and should expand the level of extension services in the industry though increased Regional Shepherd numbers or a part-time sheep specialist.

B. Increase Farm-Gate Sales

The farm-gate sector represents 22 per cent of the province's lamb production and supplies 40 per cent of the lamb consumed in Saskatchewan. This sector is a provincial strength which cannot easily be served by out-of-province supplies. Therefore, it offers good return from development efforts.

Recommendation 8

We recommend expansion of the farm-gate sector through promotional and marketing strategy efforts.

Recommendation 9

A "Farm Fresh Lamb" marketing program should be launched to increase farm-gate and butcher shop sales of lamb. The Saskatchewan sheep industry would take a bold step by focusing all provincial marketing efforts on farm-gate and butcher shop marketing of lamb. Such a move would be a "fronted attack" on supermarkets which market only imported lamb and Alberta lamb.

Recommendation 10

We recommend that farm-gate sales of lamb be increased from 40 per cent to 50-60% of the provincial lamb consumption.

The "Farm Fresh Lamb" marketing program should be composed of "registered" or "authorized" farm-gate producers and butcher shops. Registered farm-gate producers would provide a "check-off" to the SSWMC which could be matched by government funds to finance the program. The output from such a marketing program would be:

* Directory of registered farm-gate marketers of lamb.
* Highway and gate-post signs identifying the location of registered farm-gate marketers of lamb (similar to seed grower signs)
* Annual newspaper advertisements listing registered farm-gate outlets and registered butcher shops selling "Farm Fresh Lamb".
* Promotional material such as registration certificate, banners for farmers' markets, and other advertising material.

Recommendation 11

Furthermore, given the rapid turnover of sheep producers identified in this study, we recommend that a directory be published of sheep breeders and others who provide support services to the industry. This not only increases communication but it allows the SSWMC to respond to enquiries without giving the impression that it favours certain suppliers. If the SSWMC records when it replies to enquiries, then it can document itsefforts in directing business to Saskatchewan sheep breeders and other suppliers.

C. Broader Distribution Channels Serving Out-of-Province Markets

Seventy per cent (70%) of Saskatchewan's lamb production is marketed to Quebec through one drover located in Manitoba. Although this situation has evolved because the Manitoba drover has consistently paid the highest price, this dependence on one businessman to market 70 per cent of Saskatchewan lamb appears to place Saskatchewan in a vulnerable position. The situation seems to maximize returns at present, however,

our instincts suggest that it is an unusual and perhaps undesirable position for the industry in the long term.

Recommendation 12

We recommend that the distribution channel for out-of-province sales be broadened from one to several channels which all maximize producer returns.

Further study of the reasons for the current situation and possible alternatives is warranted.

II. Long Term

If increased production of lambs occurs in irrigated pastures and feedlots, the marketing role of the SSWMC may change dramatically. Direct marketing by individual feedlots may become more common, as is the case in Alberta, and the SSWMC may be superseded. On the other hand, the SSWMC may play an even larger role, marketing more animals directly to processors, rather than through livestock agents. This will be especially true if large numbers of lambs on irrigated pastures are able to be marketed from the pasture. In the longer term, therefore, the marketing role of the SSWMC will have to be reassessed.

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4. Alberta Department of Agriculture. A Survey of the Sheep Industry in Alberta 1971-72. Economics Division, Alberta Department of Agriculture, 1972.

APPENDIX 1

Potential Market Opportunity - Local Markets

It has been estimated that the per capita consumption of lamb in Saskatchewan is 0.6 pounds per capita, including farm-gate lamb, and fresh and frozen imported lamb. Farm-gate lamb accounts for approximately 40% of this consumption. The remainder consists of lamb sold through retail outlets and the HRI sector, and accounts for an estimated 12,000. Assuming an average carcass weight of 50 pounds, the entire provincial consumption accounts for an estimated 12,000 lambs, of which it is estimated that 5,000 are sold at the farm-gate. Therefore, if Saskatchewan lamb were to completely displace imported lamb in commercial channels, the market would represent an estimated 7,000 lambs, or slightly less than one-third of Saskatchewan's estimated lamb production of 22,500 lambs. Saskatchewan, therefore, would still be dependent on farm-gate and out-of-province markets.

Per Capita Consumption and Imports

It has been argued that an aggressive promotional program could substantially increase Saskatchewan lamb consumption. It has been estimated, for example, that Alberta's aggressive lamb promotion program has resulted in Edmonton and Calgary having a consumption level of as high as 6 pounds per capita. This is compared to an average Canadian lamb and mutton consumption of 1.8 pounds per capita. Such a figure must be used with caution, however, for if accurate it means that imported lamb from New Zealand and Australia have benefitted greatly by Alberta's promotion. With a combined poplation of 1.25 million, consumption at the level of 6 pounds per capita would represent a total of 7.5 million pounds. The maximum that Lambco could account for, given average slaughter of 93,000 animals per year (and assuming average carcass weight of 50 pounds, and 50% of production marketed in Calgary and Edmonton) would be 2.3 million pounds, or less than 2 pounds per capita. Imported lamb, therefore, would represent approximately 70% of the market.

APPENDIX 2

Strategies in Other Provinces

The Saskatchewan sheep industry does not exist in isolation, but is part of the entire Canadian sheep industry. It would be interesting to compare Saskatchewan's situation with those of other provinces, and to examine the industry strategy used in each of these other provinces. Unfortunately, this can be done only for the Ontario and British Columbia sheep industries: as far as is known, no formal industry strategies have been developed for the sheep industry in other provinces.

Ontario

Ontario, in spite of its larger industry and much larger market, faces many of the same problems faced by Saskatchewan. As a result, the industry has avoided a frontal attack against entrenched competitors (especially New Zealand) in retail chains and the HRI sector. Instead, Ontario has recommended a "Build from Strength" strategy, concentrating on increasing market share and encouraging market growth in the butcher/independent and freezer/ethnic markets. Although these segments account for 42% of total lamb sales in Ontario, they account for an estimated 90-95% of total Ontario produced lamb sales.

The Ontario strategy is based on the premise that Ontario should concentrate on markets in which they are strong, or in which their competitors are weak, selectively attacking various niches. Penetration of the retail chains and HRI industry is considered a long term investment strategy.

The implementation of this strategy has involved a program of designating "Certified Ontario Country Fresh Lamb Dealers," which are independent butcher shops who regularly purchase Ontario fresh lamb. Certified butcher shops receive promotional kits including posters, recipe cards, price tags and stickers. The program is designed to encourage butcher shop customers to purchase and use Ontario lamb more regularly, and to encourage butchers to recommend and merchandise Ontario fresh lamb.

Similarly, the Ontario country fresh lamb farm-gate program is designed to encourage increased farm-gate freezer purchases and to help farm-gate producers better service their customers' needs. Farm-gate producers are provided with kits which include gatepost sign, recipe cards to include in packages of lamb, and farm-gate freezer order forms (with the Ontario Country Fresh logo). In addition, it was recommended that farm-gate kits be made available to the public.

The Ontario strategy also includes a long term objective, which is to penetrate retail chains and the HRI industry. It is emphasized, however, that the "strategy establishes market priorities, actions, and objectives which are met before shifting emphasis to other markets." Thus a phased approach is used in the Ontario strategy.

British Columbia

British Columbia, like Ontario, recommended a phased approach to developing the market for B.C. lamb. The major market in B.C., the retail chain stores, was seen to be inaccessible to the province's lamb industry because of: (1) lack of supply consistency, (2) price competition from [at that time] U.S. fresh lamb imports, and (3) the need to establish processing facilities to provide vacuum packed lamb cuts as well as whole carcasses. It was also recommended that the HRI sector not be attempted by B.C. producers in the short term, because of the difficulty in meeting the requirements of this market.

The B.C. marketing strategy recommended: (1) increased sales of B.C. lamb to meat markets and independents, (2) initiate sales of B.C. lamb to chain stores on a seasonal basis, and (3) expand the freezer/ethnic trade by 20%. Long term goals included increasing sales to chain stores, and initiating sales to the HRI segment.

In order to implement this strategy, a sequence of required steps was recommended. The first involved reducing the costs of sheep production in B.C. through greater productivity and improved management practices. It was recommended that the B.C. government provide increased support for programs to educate existing and new sheep producers.

It was further recommended that the production capacity of the industry must be increased by industry expansion in areas where food and production costs are the lowest. In addition, the development of commercial feedlots should be encouraged to provide a more constant supply of lambs to B.C. meat packers.

Only when these requirements were fulfilled was it recommended that other steps be taken, including the establishment of processing facilities to break down carcasses and package lamb cuts, and the establishment of an extensive promotion campaign.

Appendix 3

Ontario Sheep Development Program and Live Lamb Grading

Ontario

Telephone (519) 846-0941
843-2231
1-800-265-8332

Ministry of Agriculture and Food
Ministère de l'Agriculture et de l'Alimentation
Animal Industry Branch

Wellington Place
R.R. 1
Fergus, Ontario
N1M 2W3
October 23, 1987

Ross Barcley
Harvest Food Ltd.
112 Research Drive
Saskatoon, Sask.
S7N 2X8

Dear Ross:

Please find enclosed the information you requested on the Red Meat Plan and the Live Lamb Grading Program in Ontario.

I hope this information is helpful. If you have any additional questions, please feel free to contact me.

Yours very truly

Bill McCutcheon
Provincial Sheep Specialist

BM:ms
Encl.

Background

Live Lamb Grading

In the mid to early 1980's, it was felt that if Ontario was going to increase its market share it would be by producing heavier lambs. At that time, the Eastern States, mainly Virginia and Pennsylvania where sending heavy lambs to Ontario to be killed. These lambs were live graded in these states. It was felt that if Ontario was going to compete with these lambs that Ontario's heavy lambs would also need to be identified by grade or be live graded before selling occurred.

(See Goals and Rules-Red Meat Factsheet)

Ministry of Agriculture and Food
ONTARIO
Jack Riddell, Minister
Clay Switzer, Deputy

ONTARIO RED MEAT PLAN

SHEEP DEVELOPMENT

The Sheep Development Program encourages producers to adopt new technology to improve the productivity of their flocks. The program recognizes that genetics, nutrition, health, environment, reproduction, economics and management are significant factors in determining the performance of Ontario's sheep flocks.

The weighing of lambs allows the producer to determine the performance of ewes and lambs, which in turn lets him or her evaluate their genetic potential and the effects of management procedures. Some key management changes may involve the breeds of sheep used, ration formulation, improvement of facilities, pasture management, and new technology such as estrus control, pregnancy testing and live lamb grading.

Producers who enroll in the Sheep Development Program must also enroll in the Sheep Flock Improvement Program (SFIP), also known as R.O.P., to monitor the performance of their flocks. SFIP is a provincial program aimed at increasing production efficiency.

The Sheep Development Program is a component of the five-year Red Meat Plan, which also has incentives for cow-calf and stocker-slaughter operators. The Red Meat Plan, which began April 1, 1984, is the result of a collaborative effort by Ontario's beef and sheep producers and government staff.

Extension Services

A ministry representative will visit enrolled producers at about lambing time. The objectives of this farm visit are to:

- help the producer understand the weighing procedures of Sheep Flock Improvement Program (R.O.P.)
- discuss flock management programs and make suitable recommendations for flock improvement
- discuss optional components of the Sheep Development Program
- review other ministry services with the producer.

Weighing Guidelines— Sheep Flock Improvement Program (R.O.P.)

All ewes, rams and lambs must be clearly identified with a permanent ear tag or tattoo.

Producers must weigh lambs at 50 *days*. If the lambs are not sold before the 100-day weight, the lambs are weighed again at 100 days. Lambs weighed at 50 days can be between the ages of 35 to 65 days. Lambs weighed at 100 days can be between the ages of 85 to 115 days. From the 50 day weight, a ewe index will be generated for each ewe whose lambs were weighed. From the 100-day weights a multi-trait index and 100-day index will be generated on each lamb weighed in the group.

There is an option of weighing lambs on the supervised or unsupervised program. Purebred sheep producers must be on the supervised program. Details and enrollment packages for SFIP (R.O.P.) are available at local ministry offices.

Weighing Incentives

Under the Sheep Development Program, producers will receive an incentive grant of $1 per unsupervised 50 and 100-day lamb weights and $3 per supervised 50 and 100-day lamb weights. Payment is issued after the 100-day report is generated. If no 100-day weights are to be taken, the SFIP (R.O.P.) office must be notified.

Submission of these lamb weights entitles the producer to participate in the program's optional components, which are outlined below.

Optional Components

Estrus Control

To improve ewe efficiency and generate more lamb crops and lambs born per year, there is a grant offered on estrus control materials. Grants are available to cover 50 per cent of the cost up to a maximum of $4 per breeding ewe per year for vaginal sponges, hormones, sterile water, gel and applicators.

The grant also includes 50 per cent of the cost of vasectomizing a ram. The vasectomized ram, when introduced at the start of the breeding season, will bring ewes into heat sooner and synchronize the group.

Signed receipts as proof of payment are to be submitted with applications.

Pregnancy Examination

To aid in the proper nutrition and grouping of ewes, a grant to cover 50 per cent of the cost of pregnancy examinations up to $1 per breeding ewe per year is offered. Signed receipts as proof of payment from a veterinarian or an approved pregnancy tester under the Red Meat Plan must be submitted with the grant application.

Forage Testing and Ration Formulation

To better meet the nutritional requirements of all the animals in the flock, rams and lambs, two free forage analyses are available annually to each participant. If requested, the forage analysis can be accompanied by a ration formulation. Forage analysis kits and ration formulation forms are available through local ministry offices.

Flock Health Program

Assistance is available equal to 50 per cent of the cost of preventative flock health control medications to a maximum of $5 per breeding ewe per year. The Flock Health Program is aimed at preventative flock health management. Therefore payment is issued only for those medications used in a preventative flock health program.

These drugs and medications must also be registered for use in sheep in Canada. Eligible medications are clostridial vaccines, internal and external parasite medications, and Vitamin E and Selenium for the control of white muscle disease. Additional eligible expenditures include post mortems, fecal samples and two advisory flock health visits.

Signed receipts as proof of payment are to be submitted with applications. Flock health visit forms must accompany flock health applications.

Live Lamb Grading

An incentive grant of $3 will be available for each on-farm-graded heavy lamb. The grading must be done by ministry-authorized personnel only.

GOALS

- to explain different quality grades of heavy lambs to producers
- to deliver a production package to producers so that quality heavy lambs can be produced economically
- to increase production of quality heavy lambs going to the marketplace
- to deliver quality heavy lambs to the marketplace that is more attractive to buyers
- to supply a more consistent quality product to the marketplace that can compete with imports of heavy lambs.

RULES

1. Producers must have satisfactory scales so that lambs to be graded can be weighed.

2. Producers must have a minimum of 15 lambs to be graded.
3. Lambs to be sorted must be a minimum of 90 lbs. and not heavier than 125 lbs. to be eligible for the $1 incentive payment and for grading.
4. Lambs must be within the live weight range of 95 to 110 lbs. and have a satisfactory finish and conformation to be tagged as quality packer type lambs.
5. Ewe, wether and ram lambs less than five months of age are eligible to be tagged. All lambs must be docked and cleaned, especially around the dock area.
6. Lambs graded are to go to market within one week of grading so that there is little decline in quality between grading and marketing time.
7. There are no restrictions on where the lambs are marketed.
8. Ewe and wether lambs are identified by a blue tag and ram lambs by a green tag.

Capital Facilities

Grants of 50 per cent of the cost of material and hired labour up to a maximum grant of $5,000 is available to producers who have 40 breeding ewes or more. Eligible components include handling facilities, scales for weighing livestock and feed, pasture renovation, livestock watering equipment, fencing, simple structures (pole barns), pregnancy testers and hired labour (excluding family labour). All Capital Facilities work must start on or after April 1, 1984 and will be inspected by a local capital grants inspector to ensure that all claims are eligible for payment. Details regarding eligible components are available at local agricultural offices. Signed receipts as proof of payment must accompany all applications.

The Capital Facilities grants are intended to improve production efficiency through the use of well-designed buildings and handling facilities (or improvements to existing ones), the more efficient use of pastures and the adoption of new technology such as pregnancy testing.

Enterprise Analysis

Grants of $100 per year are available to producers who, on a confidential basis, supply annual records in an approved format to the ministry. Records must be received in the local ministry office by six months after the producer's year end. After this time, the analysis will be performed but no grant will be issued. Consultation with ministry staff is available on request.

Based on the information provided, the producer will receive a confidential computer business analysis that will help identify the strengths and weaknesses of the farm business. The report can also be used to compare the farm's productivity against the average of other farms engaged in the same type of enterprise.

Receipt Requirements

All supporting invoices for incentive grants must be completed as follows:

1) For invoices exceeding $50, the invoice must be marked "paid in full" and bear the full signature of the vendor or vendor's agent.
2) For invoices less than $50, the invoice must be marked "paid", "pd." or "paid in full", and the initials or signature of the vendor or vendor's agent must appear.
3) All invoices must be itemized.

Failure to submit properly completed invoices will delay the processing and payment of your grant application.

Local Sheep Improvement Clubs

To be eligible for any incentive grants, a producer must be a member of a local Sheep Improvement Club. Participation in the clubs ensures producers of the opportunity of learning about new advances in production technology. Also, each club has a contact with a weighperson(s) who is responsible for recording weights on the supervised R.O.P. Program.

Enrollees who are not members of their Sheep Improvement Club will not have their grant applications or R.O.P. weights processed for payment.

Eligibility Requirements

To be eligible for the Sheep Development Program, producers must:

- have a principal residence in Ontario
- own or lease land on which sheep farming occurs (lessees are eligible if they have a written lease from the owner)
- participate in local Sheep Improvement Clubs
- enroll in the Sheep Flock Improvement Program (R.O.P.)
- have a minimum of 15 breeding ewes
- have a minimum of 40 breeding ewes to qualify for Capital Facilities grants
- have an official performance index of 100 or more for new sires introduced into the flock (based on the 100-day index)
- have an approved scale.

Producers cannot be paid until their lamb weights have been received by the Red Meat Administration Centre.

Partnerships or corporations are limited to the same maximum grants as individual farmers.

Producers wishing more information should contact their O.M.A.F. Agricultural Representative, Red Meat Advisor or Sheep Specialist.

Appendix 4

Alberta Crow Benefit Offset Program

ALBERTA CROW BENEFIT OFFSET PROGRAM

INSTRUCTIONS AND PROCEDURES FOR FEED GRAIN MERCHANTS

I. Registration Application

1. Feed grain merchants must complete a registration form (available at Alberta Agriculture district offices or from the program administrator) and return it to the program administrator in Edmonton.
2. The head office of a company need only complete one registration form. District or regional offices do not need to apply separately.
3. If a feed grain merchant, with its head office outside Alberta, wishes the head office rather than the Alberta office to administer its participation in the program, the company should inform the program administrator in writing.

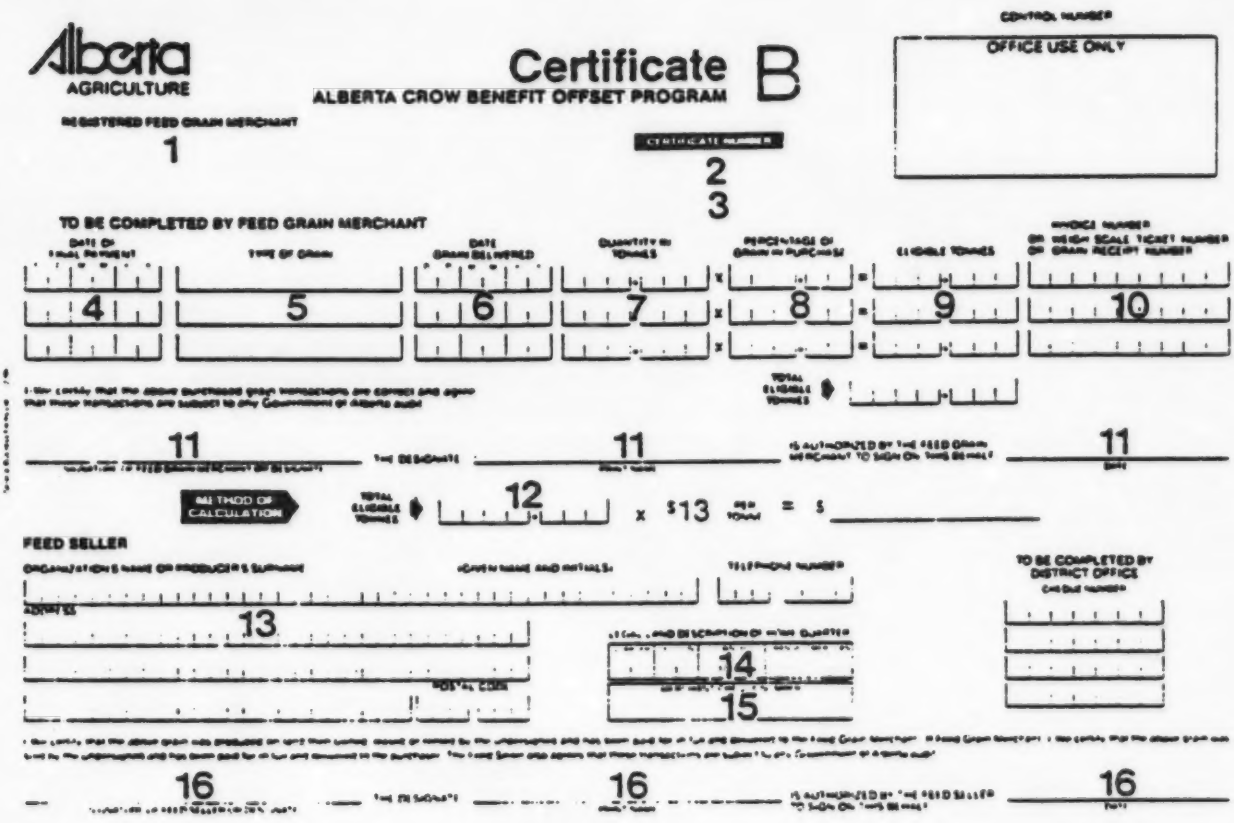
II. Registration Approval

1. The feed grain merchant must forward the completed registration form and a written bank reference to the program administrator. This reference must state what credit facilities are available and how they are secured.
2. Once a feed grain merchant's registration has been approved, B certificates will be issued and the feed grain merchant will be notified of the size of its float.
   - 2.1. The initial number of B certificates issued to the merchant will be based on a percentage of the Estimated Annual Number of Feed Grain Purchase Transactions (see item 8 on the registration form). Additional certificates may be requested when required.
   - 2.2 Approved Float: Float means the number of tonnes represented by B certificates issued that may be, at any time, in excess of the tonnage represented by A and B certificates received. The program administrator will approve the feed grain merchant's float based upon a percentage of the feed grain sold in Alberta under the program (see item 6D on the registration form).
   - 2.3 B certificates will be pre-printed with the feed grain merchant's name, address and telephone number prior to the certificates being issued.

III. Buying Eligible Feed Grain with B Certificates

1. The feed grain merchant will issue B certificates to feed grain producers or other feed grain merchants when purchasing eligible off-board or non-board feed grains.
2. The feed grain must be paid for in full before the certificate can be issued. The certificate may form part of the final payment (see program condition 9.10).
3. Upon purchase, the issuer completes the certificate, gives the top three copies to the feed grain seller, sends the fourth copy to the program administrator and keeps the last copy for his own records.
   - 3.1 If the feed grain seller produced the grain, he must take the three copies of the B certificate he received to any Alberta Agriculture District Office for a cheque. The seller may designate another person to redeem the certificate, but that person should have adequate identification; a letter of authorization is recommended. Note: Cheques will be made payable only to the Feed Grain Seller.
   - 3.2 If the feed grain seller is another merchant who purchased the grain for resale, that merchant must send the top two copies of all B certificates received to the program administrator. The third copy is to be kept for his records.

Alberta
AGRICULTURE



INSTRUCTIONS FOR CERTIFICATE COMPLETION

NOTE: It is the responsibility of the feed grain merchant issuing the certificate to complete it in full.

1. **REGISTERED FEED GRAIN MERCHANT:**
   The name and address of the registered feed grain merchant, pre-printed on the certificate.

2. **CERTIFICATE NUMBER:**
   The first 4 digits of the certificate number are your registration number. The last 5 digits and the letter B indicate this particular certificate.

3. **TELEPHONE NUMBER:**
   Your telephone number, pre-printed below the certificate number.

4. **DATE OF FINAL PAYMENT:**
   The date the feed grain was paid for in full.

5. **TYPE OF GRAIN:**
   For example: wheat, oats, barley, etc. See program condition 3.2.6. If a mixed ration is purchased, enter the brand name of the ration.

6. **DATE GRAIN DELIVERED:**
   If one line is used for several loads, please use the date the last load was delivered and attach a summary to the certificate.

7. **QUANTITY IN TONNES:**
   Enter the number of tonnes purchased. Note: the minimum transaction for which a certificate may be issued is one (1) tonne.

8. **PERCENTAGE OF GRAIN IN PURCHASE:**
   For eligible grains refer to program condition 3.2.6. If your purchase is ENTIRELY made up of one eligible feed grain or a mixture of eligible feed grains, enter 100%. If your purchase is a formulated ration containing ingredients other than eligible feed grain, enter the percentage of eligible feed grain in the ration.

9. ELIGIBLE TONNES:
Calculate the eligible tonnes by multiplying the tonnes purchased by the percentage of eligible grain in the transaction:

Examples:

a) If only eligible grain is purchased:
Multiply the tonnes by 100% and enter.
e.g. 20.000 tonnes x 100% = 20.000

b) If a mixed ration is purchased:
Multiply the tonnes by the percentage of eligible grain in the ration and enter.
e.g. 25.000 tonnes x 85% = 21.25

c) If more than one ration is purchased:
There is space on the certificate for 3 separate entries containing different percentages of eligible grain. Calculate the eligible tonnes separately and enter the total in the area TOTAL ELIGIBLE TONNES.

e.g. 9.250 tonnes x 100% = 9.250
10.325 tonnes x 95% = 9.809
6.500 tonnes x 50% = 3.250
TOTAL ELIGIBLE TONNES = 22.309

10. INVOICE NUMBER, WEIGH SCALE TICKET NUMBER or GRAIN RECEIPT NUMBER:
One of the above must be entered for verification purposes.

11. SIGNATURE:
The feed grain merchant (or designate) must sign and date the certificate. If a designate signs, print the designate's name where indicated.

12. METHOD OF CALCULATION:
To calculate the value of the certificate, transfer the TOTAL ELIGIBLE TONNES from 9 above and multiply by $13.00.

13. FEED SELLER:
Enter the complete name, address and telephone number of the feed seller.

14. LEGAL LAND DESCRIPTION OF HOME QUARTER:
Enter the legal land description of the feed seller.

15. MERCHANT CHEQUE NUMBER:
The number on the merchant's cheque issued on behalf of the Alberta Crow Benefit Offset Program to the feed grain seller.

16. SIGNATURE OF FEED SELLER OR DESIGNATE:
Ensure that the feed seller or designate signs and dates the certificate.

IT IS IMPORTANT TO COMPLETE THE CERTIFICATE IN FULL, AS ANY ERRORS OR OMISSIONS MAY RESULT IN DELAY OF PROCESSING.

IV. Selling Eligible Feed Grain and Receiving Certificates

1. The feed user or another merchant purchasing the feed grain completes the A or B certificate, gives the top three copies to the feed grain merchant selling the grain, sends the fourth copy to the program administrator and keeps the last copy for his records.

2. The feed grain merchant receiving the certificates will then send the top two copies of all A and B certificates received to the program administrator. The third copy is kept for his records.

V. Merchant Record Keeping

All feed grain merchants are required to submit the fourth (pink) copy of all B certificates issued and the top two copies of all A and B certificates received to the program administrator by the tenth day of the following month. A monthly merchant log is supplied to assist in keeping track of all the B certificates issued versus all the A and B certificates received. On the log, there is an area for recording the numbers of tonnes purchased and sold for the month and for the total to date.

One copy of the merchant log must be submitted with your certificates every month.

VI. Issuance of B Certificates Involving a Canadian Wheat Board Cash Advance

Due to the present price of wheat, oats, and barley, it has become apparent that the grain merchant may be unable to issue a B certificate when purchasing grain from a feed grain producer who has taken out a cash advance under the Prairie Grains Advance Payment Act. This situation will occur when the amount owing (after the advance and any other prescribed levies are deducted by you) is less than the redeemable per tonne value of the certificate (see program condition 9.8.3). This program condition enables the grain merchant to present a B certificate to the program administrator, instead of to the feed seller, when this situation occurs.

The following is the procedure to be used under these circumstances:

Procedure For Completion of B Certificates Under Section 9.8.3 of the Program Conditions

1. The grain merchant will complete a certificate as usual, including the farmer's signature or that of the designate.

2. The grain merchant will pay the farmer the total amount owing after the cash advance and any other levies are deducted.

3. Indicate in writing on each certificate that payment is requested due to insufficient funds resulting from an outstanding cash advance.

4. All copies, except the merchant's copy (gold), are to be sent to this office - NO copy is given to the grain producer.
5. Submit the fourth copy (pink) with your monthly batch list.
6. Send the top three copies of the certificate for cashing separately from your monthly batch list.
7. Supporting documents must be available upon request for audit purposes.

VII. Cashing of B Certificates Issued by Grain Merchants to Feed Grain Producers or Landlords

Elevator companies, feed mills, and licensed grain dealers, approved as feed grain merchants under this program, may apply in writing to the program administrator for approval to cash B certificates issued by them to feed grain producers or landlords (program condition 9.8.4). This program condition enables the merchant to pay the grain producer or landlord the total amount owing at the time of the purchase. The merchant then presents the B certificate to the program administrator for reimbursement.

The following is the procedure to be used under these circumstances:

Procedure for Cashing B Certificates by Grain Merchants

1. The B certificate must be completed by the merchant and signed by the feed grain seller or the designate.
2. The seller will receive two cheques from the merchant: 1) the merchant's cash ticket less the dollar amount on the certificate and 2) a cheque equal to the amount on the certificate.
3. The cheque representing the certificate value must be a separate cheque and identified as pertaining to the Alberta Crow Benefit Offset Program.
4. Indicate in writing on each certificate that reimbursement is requested due to the issuing of a separate cheque by the merchant on behalf of the Alberta Crow Benefit Offset Program. Write the number of this cheque in area 15 of the certificate (see instructions for completing a certificate).
5. Submit the fourth copy (pink) with your monthly batch list.
6. Send the top two copies of the certificate for reimbursement separately from the monthly batch list.
7. Ensure that the feed seller receives his copy (blue).
8. Retain the last copy (gold) for your records.
9. Supporting documents, showing that a separate cheque for the value of the certificate was issued by the merchant, must be submitted with the certificate when reimbursement is requested.

VIII. Purchases and Switches by Feed Grain Merchants from the Canadian Wheat Board

Pertinent procedures related to this program condition will be forwarded to grain merchants after their requests are received by the program administrator (see program condition 9.8.2).

IX. Security

The certificates must be kept in a secure place. If any certificates are lost or stolen, they must be reported immediately to the Alberta Crow Benefit Offset Program office in Edmonton (phone 422-0015).

Any damaged or voided certificates must be returned to the program administrator in the Edmonton office. Damaged or voided certificates should be marked VOID across the front.